DOW THEORY LETTERS INC.

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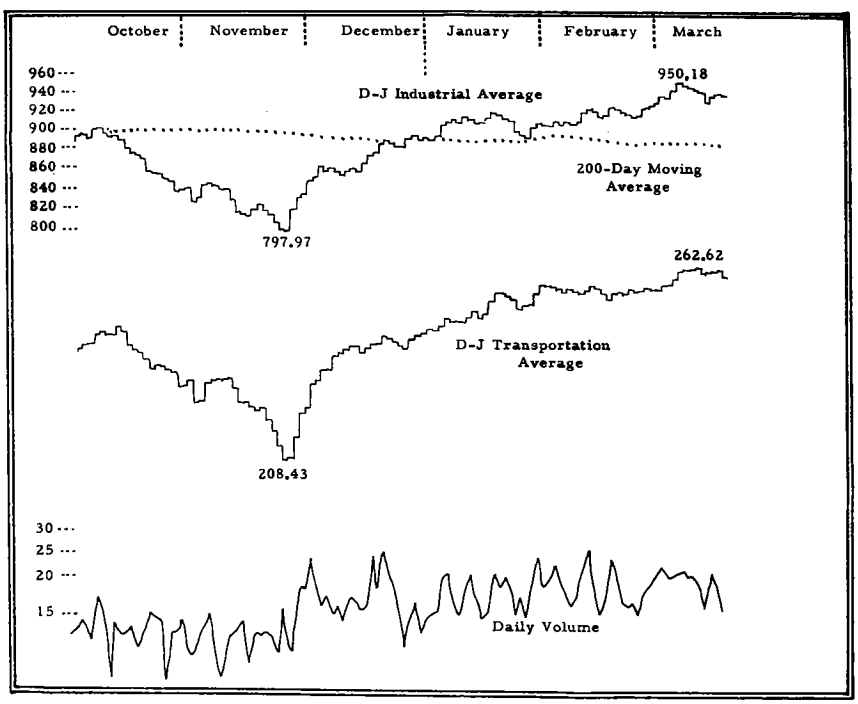
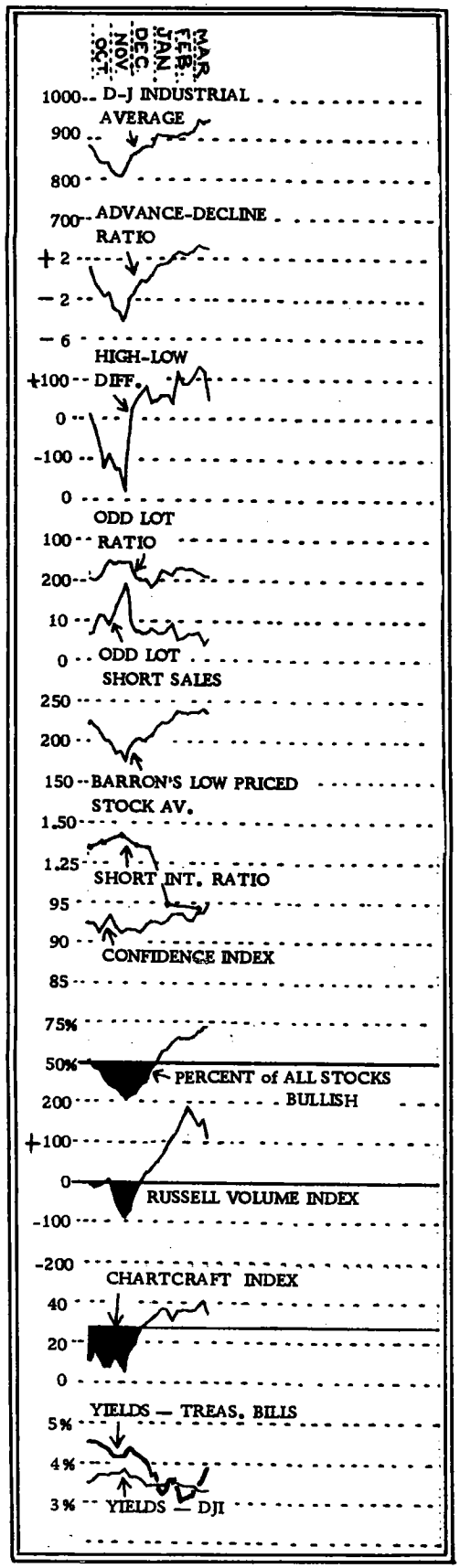
THE PICTURE: If you work in the U.S., the odds are that you are a taxpayer, that you owe Uncle Sam money at the end of each year. That's hardly a happy situation, particularly when you consider where most of your money goes to (i.e., armaments and interest on the national debt).

But how would you like to be a foreign creditor of the U.S.? If you're not pleased with your own situation, look at the creditor's position. He has piled up a mound of dollars, because he is perhaps sharper, more competitive or puts out a better product than his U.S. counterpart. His central bank is aghast as the U.S. goes along merrily inflating its currency (monetary expansion in February, 1972, was at the rate of 14%). The creditor's country does not want any more dollars, and on March 15 the creditor is glued to the radio as U.S. Secretary of the Treasury Connally makes a speech which is supposed to put some of his fear to rest.

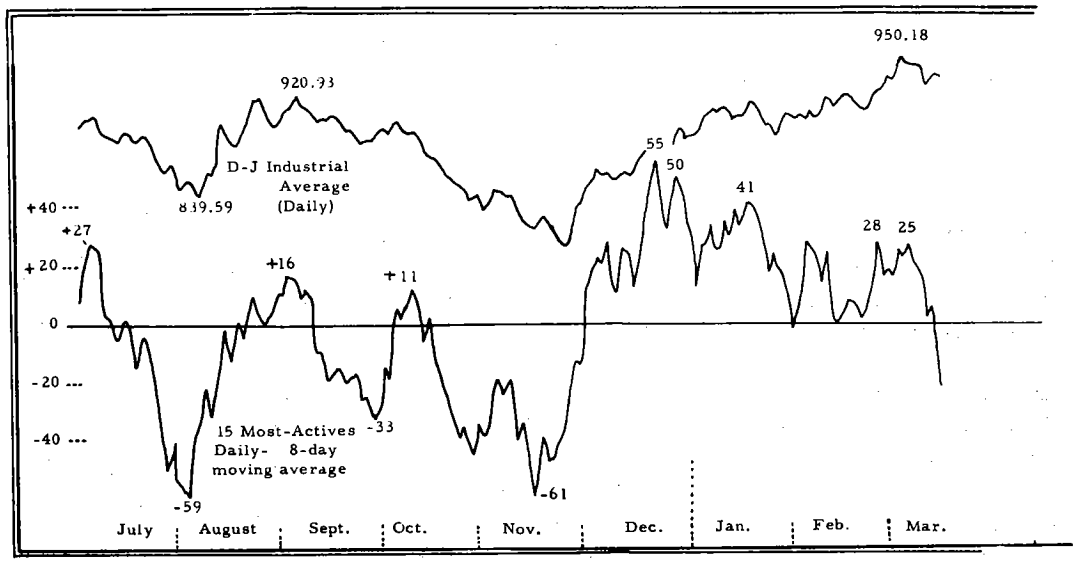
He hears the speech and can't believe what he is hearing. Connally should have kept quiet, he mumbles. For rather than offering anything in the way of constructive activity, Mr. Connally asked for a new monetary forum. Instead of the U.S. meeting with the Group of Ten (which are actually the major creditors of the U.S.), Mr. Connally wants another international group which would include many more nations (who, of course, would be less interested in dollar convertibility, since they are not creditors). Further said the Secretary, any "premature commitments" to convertibility before the monetary system is reformed would be folly. Then to top it all off, Mr. Connally later told newsmen that "King Midas himself" might not be able to make the U.S. dollar convertible into gold.

Ah yes, pity the poor creditors of the U.S. The banker is broke, and as the players try to turn their chips in, the banker is giving them words and excuses



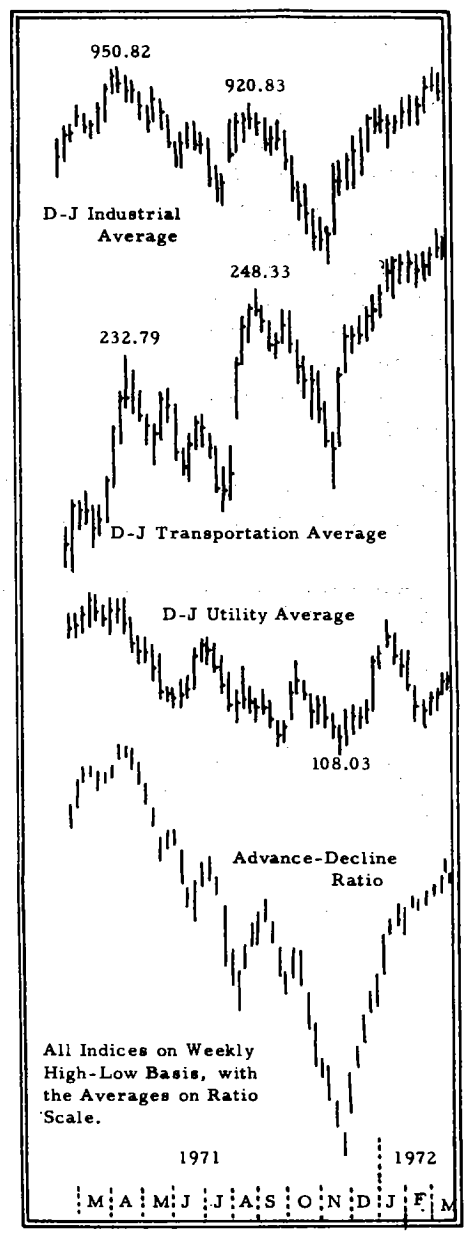


instead of money. How long will the players stay in the game? Who knows? They are in over their head now, and there's no telling when desperation will turn to anger.



On Wall Street the buyers have been having a whirlwind game of it. Volume on the N.Y.S.E. has been running at record levels, rocketing over the 20 million share mark on twenty of the fifty-four trading sessions in 1972. The Amex and over-the-counter markets have come alive, and new issues and stocks with exotic names have suddenly become the "daily doublers."

In the last report, I drew attention to the fact that the Transportation Average had bettered its April, 1971, high of 232.79 (it did this last August) but Industrials have never confirmed. The comparable April, 1971, Industrial high (see accompanying chart) was 950.82. On March 6 the Industrial Average pushed up to 950.18, just 64¢ under the 1971 peak. Then amid huge, churning volume, the Industrials turned down.



Three days later, on March 9, the Transports recorded a recovery high of 262.62, and then they turned down too. On March 16 the Industrial Average started mounting another rally, and it was clear that this would be an attempt on the long-standing 950.82 level. But what interested me even more than the possibility of a bettering of 950.82 was the sluggishness of the A-D ratio on this advance. For instance, on Friday (March 17) the Dow was up over 5 points with the A-D line actually down. Therefore, it would not surprise me to see 950.82 bettered but with a series of non-confirmations on the A-D ratio, as massive distribution continues in this area.

It is well to remember that the action of late-1968 and early-1969 contained many of today's characteristics. Transports had rallied to a record high while Industrials steadfastly refused to better their own 995.15 record high of 1966. Despite stellar performances by all the "other averages," the Dow turned down and within a few months the market was in shambles. The action between now and Election-time 1972 will tell us whether history is fated to repeat.

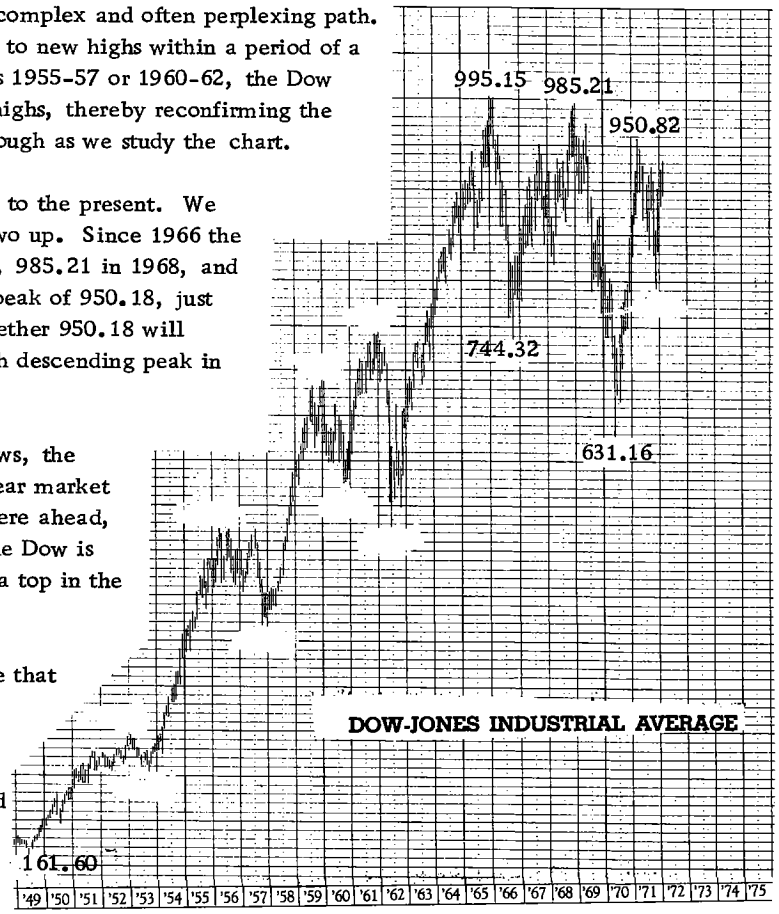
One technical indicator which subscribers have been following is the daily plurality of the 15 most active stocks (computed on an 8-day moving average, see Letter 522). On March 15 this indicator turned negative for the first time in 1972 (see accompanying chart). This means that the majority or plurality of the leadership on the N.Y.S.E. (i.e., the 15 most active stocks on the N.Y.S.E.) has sunk into minus territory. Thus, the leadership money was going out, not into, the market. When this occurs, the "rest of the market" is generally not far behind.

* * * *

On the page 1 chart it is worth noting that a number of the indices are weakening. (1) The high-low differential has turned down, (2) The Russell volume index has produced a downside zig-zag, (3) The Chartcraft Index has dropped, and (4) Treasury 91-day bill yields have risen to 3.90%.

PATTERN: The page 3 chart follows the path of the great primary bull market of 1949 to 1966, and the primary bear market of 1966 to date. The chart is courtesy of M.C. Horsey, Salisbury, Md. 21801.

If we follow the bull market from its inception in June of 1949 (Dow 161.60) to its final top in February, 1966 (Dow 995.15), we note that it traces a complex and often perplexing path. But following any temporary peak, the Dow always pushed to new highs within a period of a year or so. Thus, even after such confusing movements as 1955-57 or 1960-62, the Dow "straightened itself out" and climbed to new bull market highs, thereby reconfirming the primary bull trend. In retrospect, everything was clear enough as we study the chart.



Now examine the action of the Dow from February, 1966, to the present. We have four major swings in the Dow so far, two down and two up. Since 1966 the Dow has traced out three descending tops, 995.15 in 1966, 985.21 in 1968, and 950.82 in 1971. This month (March 6) the Dow struck a peak of 950.18, just 64¢ under its 1971 peak, but it is still too early to tell whether 950.18 will stand as the high for 1972. If it does we will have a fourth descending peak in the Dow.

Following the 1966 and 1968 peaks, we had two drastic lows, the 744.32 low of 1966 and the 631.16 low of 1970. If the bear market runs true to form, we will have a further new low somewhere ahead, a low well under the 631.16 of 1970. But at this time, the Dow is still wrestling with the problem of whether we are now at a top in the 950 area or not.

Nevertheless, the pattern shown on this chart is the picture that galls the bulls. For despite all their arguments, it is the pattern of a primary bear market under Dow Theory (regardless of the Transports, which have in general acted stronger than the Dow — but they have not been confirmed by Industrials).

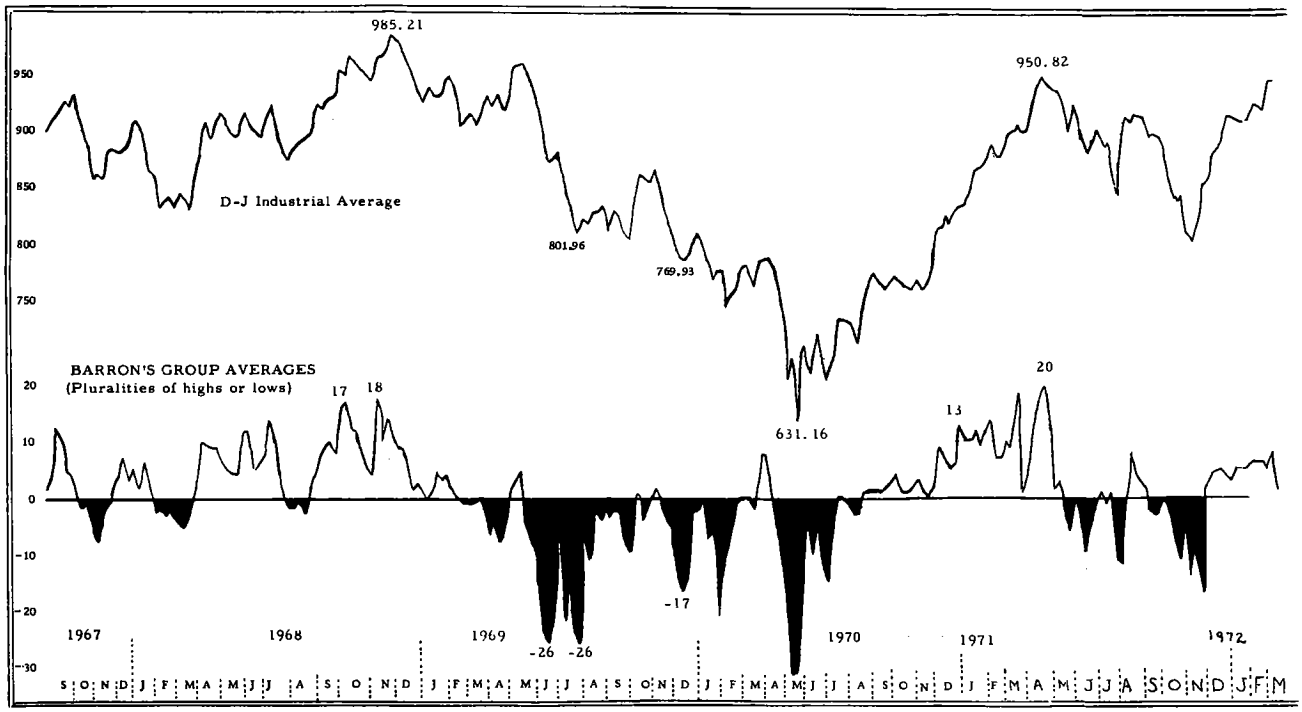
In reading dozens of other services each week, I note that almost no one includes a long-term chart of the market such as this one. The reason, I believe, is that very few owners of advisory services give credence to the strongest force in the market — the primary trend. The average market writer is taken up with the news of the day, the short-term or fundamental picture, or the latest statement from Mr. Nixon, Mr. Connally or Chairman Burns of the Fed. The idea that the market and the economy can be in the overall grip of a major bull or bear trend, a trend that may last for years and years, seems incomprehensible to the average market writer. And this is the reason why overall, long-term charts of the Averages are so seldom shown in other market services.

Yet, it was Charles Dow who stated that the great fortunes are made in the market (or the great losses avoided) by staying in tune with the primary trend. This is a procedure which one seldom sees over any long period of time on Wall Street. And that is the reason why, despite the numerous bull movements which consume the greater part of every decade, the public does not tend to make money in stocks. Consider the month after month of odd-lot selling. If the public had made money in stocks over the last decade, would they be selling (I am taking the odd-lot transactions as being indicative of the public) as they are doing now? You can bet they would not.

COMPARISONS: I am including on page 4 my chart of the plurality of new highs or lows in Barron's weekly group listings. Here is how this index works. If on a given week there were 6 groups at new highs and 1 at a new low, the plurality for the week would be plus 5, and this would be entered on the chart.

On April 28, 1971, the Dow touched a high for the year at 950.82. During that week there was a plurality of 20 groups at new highs (actually 20 groups touched new highs and there were no new lows). This contrasts with the recent record. On March 6 the Dow closed at 950.18, at essentially the same level as the April, 1971, level. But during the week (ending March 10) there were only 11 groups at new highs for the year. Thus there was a drop from 20 new group highs in April, 1971, (Dow 950.82) to 11 new group highs on March 10, 1972, (Dow 950.18). This is a decided decline in strength between 1971 and 1972.

How about the Industrial Average itself? I am indebted to Mr. T.E. Slanker (T.E. Slanker Co., Portland, Oregon) for the fascinating page 4 tabulations regarding the 30 stocks which make up the Dow Industrial Average. Note that in comparing the action of the 30 stocks during the two dates (April 28, 1971, and March 6, 1972), there were only 9 stocks in the Dow



DATE	4-28-71	3-6-72		DATE	4-28-71	3-6-72	
D.J.I.A.	950.82	950.18					
ALLIED CHEMICAL	30.25	29.75	down	INT. NICKEL	40.00	35.25	down
ALUMINUM CO. OF AMER.	66.50	49.00	down	INT. PAPER	39.87	35.37	down
AMERICAN BRANDS	48.12	45.00	down	JOHNS-MANVILLE CORP.	44.00	38.12	down
AMERICAN CAN	40.75	35.62	down	OWENS ILL. INC.	65.62	47.87	down
AMER. TEL.& TEL.	48.12	42.25	down	PROCTER & GAMBLE	58.75	86.62	up
ANACONDA	22.87	19.75	down	SEARS & ROEBUCK	91.37	112.37	up
BETHLEHEM STEEL	23.87	32.75	up	STANDARD OIL CAL.	62.12	59.62	down
CHRYSLER	32.00	33.75	up	STANDARD OIL N.J.	80.50	74.87	down
DuPONT	144.75	175.50	up	SWIFT & CO.	39.87	37.00	down
EASTMAN KODAK	85.00	111.12	up	TEXACO, INC.	39.00	32.62	down
GENERAL ELECTRIC	62.00	62.62	up	UNION CARBIDE	49.62	45.75	down
GENERAL FOODS	38.50	31.62	down	UNITED AIRCRAFT	44.00	33.87	down
GENERAL MOTORS	89.62	83.87	down	U. S. STEEL	35.25	32.50	down
GOODYEAR TIRE	32.75	31.25	down	WESTINGHOUSE ELECT.	45.37	47.50	up
INT. HARVESTER	23.37	30.50	up	WOOLWORTH CO.	55.25	42.50	down

which were higher on March 6, 1972, than they were on April 28, 1971. This despite the fact that the reading on the Dow Industrial Average was essentially the same. Furthermore, of the 9 stocks which were higher, only 5 were appreciably higher! These were Bethlehem Steel, DuPont, Kodak, Proctor & Gamble and Sears.

The remarkable conclusion, then, is that the Dow has been able to reach the 950 level through the improved action of only 17% of the stocks which go to make up the Industrial Average. This poor breadth jibes with the poor showing of the group chart. All of this has occurred with recent and current market volume at the highest levels in history. My own feeling is that a tremendous amount of distribution has taken place under the guise of this huge volume and the "window dressing" action of only five stocks in the D-J Industrial Average. The fact is that the great majority of stocks in the Dow are far below their 1966 bull market highs and also well below even their highs of 1971. This in the face of massive Administration propaganda and mammoth Governmental manipulation. It's a picture that suggests very thin ice on Wall Street. In the face of the first heat rays, that ice will break.

PILES OF PAPER: The U.S. is now beginning to reap the fruits of its fiat money printing binge. The dollar, which for decades was "as good as gold" and represented the full power and honesty of the U.S. Government, is now a drug on the market. A few weeks ago the Dutch suspended interest payments on non-resident bank accounts, and the Belgians reimposed limits on non-resident bank accounts. The French already have effective exchange controls via a two-tier dollar system. The Germans have

a cash deposit system which just about eliminates foreign borrowing by German firms. All of these efforts have one thing in common. They are aimed at restricting the inflow of dollars.

But all the above is just the beginning. The big concept coming up is the two-tier dollar market. One tier of the market would be the commercial dollar with a valuation set according to the December 18 Washington realignment rules. The other tier would be the financial and tourist dollar, the value of which would be set on the free market. This would mean an end of support for the financial dollar; that dollar could slide to 10%, 20% or 30% below its value as agreed in the Washington talks.

With the new barriers now being erected against the dollar, with the beginning of the two-tier dollar system (now being practiced in France), the international trade wars begin.

But even the two-tier dollar system, erected as it may be to prevent European central banks from choking on any more dollars, is a stop-gap measure. The real confrontation for the U.S. lies ahead, and that will be the union of European nations economically and monetarily under the banner of a new currency which will be based on gold. This seems like a minor factor at this time, but it has profound implications. For a gold-backed currency will have intrinsic value, it will be convertible, therefore desired, whereas the dollar will be inconvertible and therefore feared.

If the U.S. continues on its current mindless path, I foresee nothing but trade troubles ahead. So far, the U.S. has gotten away with monetary "murder" because it was ahead of the rest of the world in technology. It could produce many items which simply were not obtainable anywhere else. The world needed those items and needed them badly. But times have changed. Not only has the U.S. priced itself out of many world markets, but the rest of the world has caught up to the U.S. in technology! In numerous cases, foreign manufacturers have surpassed those of the U.S. both in quality and design and also in scientific know-how.

For this reason, the problems of trading with an unwanted fiat currency (i.e. dollars) will be doubly difficult. I feel that the present arrogance of U.S. leaders regarding the dollar, the pompous policy of "benign neglect" regarding our sinking currency, will ultimately present us with a problem which will only be dealt with via "blood, sweat and tears." The longer the problems of the dollar are left to languish and the more monetary gibberish our Treasury and other Administration officials put out for public consumption, the more painful will be the final day of reckoning. And there is no way to avoid that day of reckoning, at least until our politicians can find a way of convincing people that paper is intrinsically worth more than gold.

SIGN OF THE TIMES: Speaking before a gathering of financial writers in London, Gaylord Freeman, Chairman of the First National Bank of Chicago, proposed U.S. common stocks as a world currency reserve. "I put this forward in all seriousness," he said. "European central banks want to see the American dollar convertible. So do Americans....But we have only got $10 billion worth of gold left. And we have $63 billion of credit outstanding with foreign central banks...We cannot make the dollar convertible into gold while this situation exists...I suggest that the U.S. Treasury make up a bundle of U.S. stocks — say $10 billion worth at current prices — and offer these as reserve assets to European and other banks...The Treasury won't tell them what to buy. The banks can choose for themselves. But the Treasury will provide the choice of stocks at a special discount— there has to be some incentive to buy them otherwise foreign banks could just come in and buy today, which at present they don't do...The banks would guarantee to hold these stocks or their equivalent for a stated period of years...They would have a negotiable asset of known worth. Unlike gold which costs money to keep, this asset would earn interest."

I have gone into this proposal at length because it came from a very prominent gentleman and it was put forth in a very serious manner. But the real reason I include it is to show what a pathetic situation the U.S. has gotten itself into. And it is pitiful when a leading banker has to suggest that common stocks in U.S. corporations be used to pay the U.S.'s debts, rather than the time-honored measure of wealth — gold.

This banker does not go into what would happen if the market caved in, and the new reserve assets of our creditors (common stocks) started losing 35% to 70% of their value. Mr. Freeman misses the whole point about gold, which is that when times are bad and an immutable reserve is needed, gold serves that purpose and always has. During a boom no one cares about reserves. All they want then is a piece of the pie. But when trouble comes, wealth is measured in what you can convert into gold. Nothing would serve the nations worse than common stocks as reserves during bad times. Of course, our European creditors know this, and that is why I am sure this scheme (well meaning as it is) is doomed to failure if not ridicule.

OPINION: I have always felt that if and when this nation collapses, it will not be because our security system has failed to work. It will be because the people have passively given up the right to govern themselves. An informed electorate is an absolute necessity in a democracy. To be informed, there are two prerequisites: (1) A will to find out what is happening, and (2) access to that information.

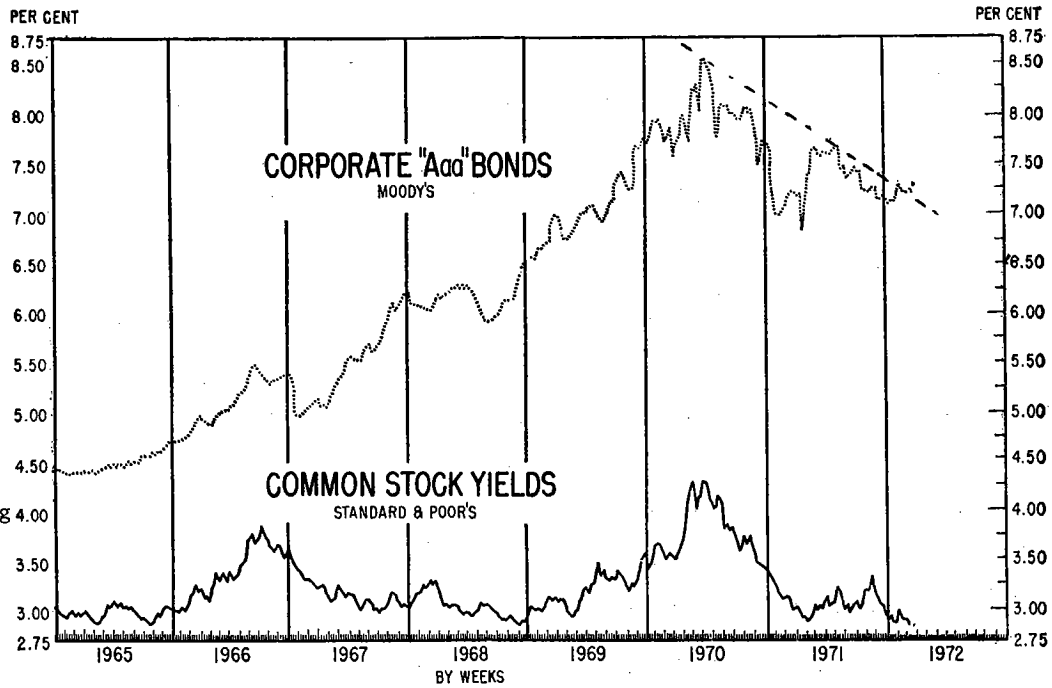
There are today more than 20 million documents which are stuck away in various Government files and are classified secret. It is estimated that about 1% of those documents have anything to do with national security. The rest have to do with protecting politicians from the eyes of the public.

The Constitution gives freedom of the press priority over the secrets of the Government. Justice Hugo Black stated, "The Government's power to censor the press was abolished so that the press would remain forever free to censor the Government".

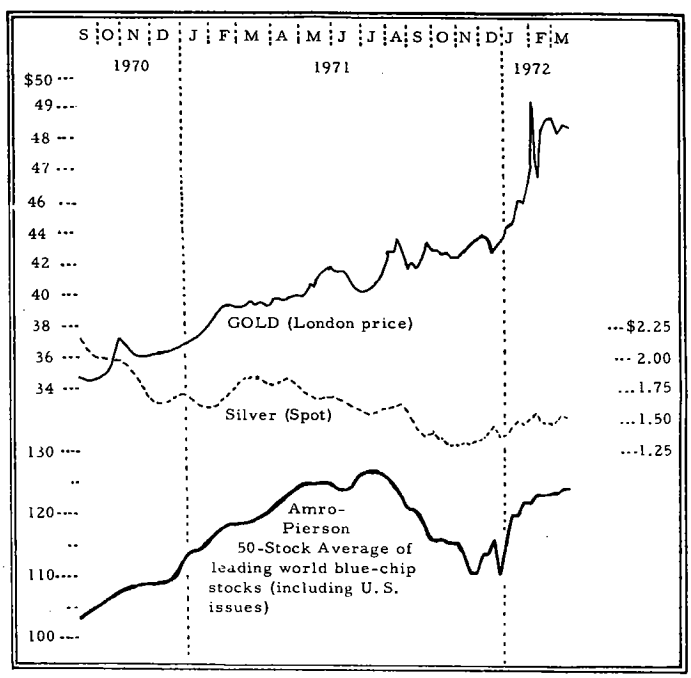
Study any nation which has turned communist or fascist. You will see that they have immediately taken over three areas: (1) The press, so the people cannot hear the truth, (2) guns, so the people cannot take back their country, and (3) gold, so the people cannot turn their property into something of international value and escape.

I was particularly interested to read an article last week by newsman Jack Anderson, Washington Bureau Chief for Parade Magazine. In the article, Anderson writes, "Under the license granted the press by the First Amendment, I have the right, and probably the duty, to expose Government secrets...For about 25 years I have tried to break down the walls of secrecy in Washington. But today the walls are thicker than ever. More and more of our policymakers hide behind these walls."

STRAIN: This chart from the latest Weekly Bond Buyer shows the yield on the Standard & Poor 500 Stock Average at a minuscule 2.82%, which is at about its lower limit. That 2.82% corresponds with the danger signals of late 1965 and late 1968 as seen on the chart. And just as ominous, this extreme of low yields comes as the yield on Aaa corporate bonds reverses its downtrend and head upwards. This means that the "spread" between stock and bond yields is widening and is now in the danger area of 4.43 points. This study could not look worse for the market.



GOLD: The weekly gold-silver chart shows the price of gold holding steady at above $48, at a level where most gold mining operations should show substantially increased profits. Silver is now holding above the $1.50 level, and the Amro-Pierson 50 Stock Average shows that a good recovery in European shares has been underway.



LATE MARKET NOTE: The market seems to be developing two patterns. Either the Dow rallies almost alone and the A-D ratio barely budges, or the Dow moves up in the morning and sells off near the close. Both phenomena are suggestive of distribution. Remember, on a day when say 650 stocks advance, 630 decline and 340 are unchanged, it means that 650 advanced and 970 were either unchanged or down. That is resistance and not a good performance.

NOTE: I am taking one of my short and infrequent vacations; therefore the next Letter will be mailed April 5, 1972.